

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301

Indianapolis, IN 46204

(317) 233-0696

<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7678

BILL NUMBER: SB 480

NOTE PREPARED: Jan 10, 2007

BILL AMENDED:

SUBJECT: Veterans' Benefits.

FIRST AUTHOR: Sen. Wyss

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
 X **DEDICATED**
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill exempts active duty military pay earned by members of the National Guard and Reserves from the individual income tax. It increases the military pay income tax deduction from \$2,000 to \$5,000. It also provides that a taxpayer may not claim both the new exemption and the existing deduction for military income.

The bill specifies that active duty military personnel stationed in Indiana are eligible for resident tuition rates at state educational institutions. It expands the high school diploma program for eligible veterans to include veterans of the Korean and Vietnam conflicts. It also authorizes the: (1) Advisory Board of the Division of Professional Standards of the Department of Education; and (2) various professional licensing boards; to adopt rules to expedite the licensure of individuals whose spouses are stationed on active duty in Indiana.

Effective Date: July 1, 2007; January 1, 2008.

Summary of Net State Impact: The estimated impact on the state General Fund due to the bill is summarized in the table below. The increase in the military service income deduction is also estimated to reduce revenue to the Property Tax Replacement Fund by about \$700,000 to \$800,000 in FY 2009.

General Fund Impact:	FY 2008	FY 2009
Military Family Relief Fund Appropriation	(\$350,000)	(\$350,000)
Military Service Income Deduction	0	(4.3 M - 4.7 M)
Total	(\$350,000)	(\$4.7 M - \$5.1 M)

Explanation of State Expenditures: *Military Family Relief Fund Appropriation:* Currently the Military Family Relief Fund (Fund) consists of: (1) appropriations made by the General Assembly, (2) donations to the Fund, (3) interest, (4) money transferred to the Fund from other funds, (5) annual supplemental fees for from the Hoosier Veterans and Support Our Troops license plates, and (6) money from any other source authorized or appropriated for the Fund.

Under the bill, in addition to an appropriation made by the General Assembly under current law (see (1)), there is annually appropriated from the state General Fund to the Fund an amount equal to the lesser of the following: (a) the sum of: donations made (see (2)), plus fees (see (6) above), deposited during the immediately preceding SFY; (b) \$350,000.

The Fund was established as of January 1, 2007 and will accrue initial revenue during CY 2007. Thus, this provision would affect the state General Fund beginning in SFY 2008. The dollar amount of donations and fees which would be collected is not known. Actual annual increase in expenditures from the state General Fund would be \$350,000 or less.

Background Information: Prior to CY 2007, the Bureau of Motor Vehicles (BMV) administered a Hoosier Veterans special recognition license plate. SEA 75 - 2006 required the BMV to terminate the issuance of the plate effective July 1, 2006 and subsequently replace it with the Hoosier Veterans license plate. Annual revenue for this license plate was approximately \$500,000.

High School Diplomas for Veterans from the Korean and Vietnam Conflicts: The bill modifies the definition of eligible veteran to include persons who fought in the Korean and Vietnam conflicts. Under current law, eligible veterans are entitled to an honorary high school diploma. Under the bill, the Department of Education (DOE) would incur expenditures to produce additional diplomas for Korean and Vietnam veterans, and the IDVA would incur additional administrative responsibilities to verify the eligibility of veterans from the Korean and Vietnam conflicts. The fiscal impact to state expenditures is currently indeterminable but expected to be minimal.

Background Information: Projections from the United States Department of Veterans' Affairs indicate that approximately 230,000 veterans from the Korean and Vietnam conflicts currently live in Indiana. There could be additional veterans living out of state that left an Indiana high school to enter the Vietnam or Korean conflicts that may qualify. There may also be veterans living in Indiana that attended an out-of-state high school.

During the 2002 session, the Indiana legislature passed P.L.127-2002. Since that time, a total of 276 honorary diplomas were awarded to World War I and World War II veterans that dropped out of high school in order to enlist in the armed forces of the United States. Of the 276 diplomas, the DOE has awarded 47 diplomas

at the state level, versus 229 diplomas awarded at the local school district level. The DOE reports that total costs to produce a diploma are dependent on the type of diploma created, and are minimal.

Tuition Exemption: Military personnel stationed in Indiana would be able to pay the resident tuition and fees instead of the out-of-state fees. The provision would reduce the amount of tuition the university receives for these students, but the overall impact on universities is probably minor. According to the Defense Manpower Data Center there were 887 active duty members of the U.S. armed forces stationed in Indiana. (Note: The totals in 2004 and 2005 were reportedly 994 and 1,014, respectively.) The number of these active duty service personnel who currently attend a state university, or who may in the future, is unknown. Out-of-state fees range from about \$2,500 to \$19,000 more per year than resident fees.

Adoption of Rules: The bill allows: the Division of Professional Standards within the Department of Education (DOE), a Health Professions Standards Board (as defined in IC 25-1-9-1), and a Professional Standards Licensing Board (as defined in IC 25-1-11-1); to adopt rules to establish procedures to expedite the issuance, renewal, or reinstatement of a license, certificate, registration, or permit, of a person whose spouse served on active duty and is assigned to a duty station in Indiana. All entities should be able to do so within their existing level of resources.

Military Income Deduction: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the deduction changes relating to certain active duty military pay and military service income in general. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Military Income Deduction:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers receiving military service income. The revenue loss from the bill could potentially total \$5.0 M to \$5.5 M in FY 2009, with the revenue loss increasing by about 1.5% annually thereafter.

Background Information: The bill provides: (1) a full exemption for active duty pay earned by Armed Forces Reserve and National Guard members in lieu of the current \$2,000 exemption.; and (2) increases from \$2,000 to \$5,000 the deduction for all other military service income, including retirement. (Note: Currently, combat pay is excluded from federal gross income and, as a result, is excluded from state AGI.) Since the bill is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Under current statute, a taxpayer may deduct up to \$2,000 in military service income from state AGI. This includes military retirement provided the recipient is 60 years old or older. State tax data indicates that 36,530 taxpayers claimed the deduction for military service pay and retirement benefits in tax year 2004, deducting approximately \$72.5 M in military pay and retirement benefits. This amount resulted in a revenue loss of about \$2.5 M. Based on U.S. Department of Defense (DOD) military census and pay rate data, it is estimated that about 35% of the annual total amount deducted under the current \$2,000 deduction is attributable to Indiana taxpayers earning active duty pay during the year, with the remainder attributable to National Guard or reserve pay and retirement benefits. The changes made by the bill would increase the total annual active duty pay deducted from AGI by about \$146.0 M to \$160.0 M in tax year 2008, with a tax impact of about \$5.0 M to \$5.5 M.

Explanation of Local Expenditures: *High School Diplomas for Veterans from the Korean and Vietnam Conflicts: See Explanation of State Expenditures.*

Explanation of Local Revenues: *Military Income Deduction:* Because the proposed increase in the military service income deduction would decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Department of Veterans' Affairs; Department of Education; State Universities and Colleges; Health Professions Standards Boards; Professional Standards Licensing Boards; Department of State Revenue.

Local Agencies Affected: School corporations. Counties with local option income taxes.

Information Sources: Tom Applegate, Indiana Department of Veterans' Affairs; <http://usmilitary.about.com/library/milinfo/statefacts/blin.htm>; Jeff Zaring, Department of Education; OFMA Income Tax databases, 1996-2004; Deborah K. Williamson, U.S. Department of Defense, Defense Manpower Data Center, (831) 583-2400; Matthew Torres, U. S. Department of Defense, Defense Manpower Data Center (831) 583-2500.

Fiscal Analyst: Jim Landers, 317-232-9869.